

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA



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In the Matter of the Application of Southern
California Gas Company (U 904 G), San Diego
Gas & Electric Company (U 902 M) and
Southern California Edison Company (U 338 E)
for Approval of Changes to Natural Gas
Operations and Service Offerings

A.06-08-026

**OPENING BRIEF OF CORAL
ENERGY RESOURCES, L.P.**

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**OPENING BRIEF OF CORAL
ENERGY RESOURCES, L.P.**

To: The Honorable Thomas R. Pulsifer,
Presiding Administrative Law Judge:

In accordance with Rule 13.11 of the Commission's Rules of Practice and Procedure, Coral Energy Resources, L.P. ("Coral") files its opening brief in the above-referenced proceeding. Coral's opening brief addresses the structural proposals that have been advanced in the settlement agreement that was entered into among Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("Edison").

The settlement agreement is the subject of the utilities' application in this proceeding. In D.06-12-034 (December 14, 2006), however, the Commission stated that the structural proposals "should be assessed . . . on their individual merits, rather than in the context of the settlement

agreements that gave rise to them.” Decision at p. 10. The Commission’s focus in this proceeding should be to consider whether each individual proposed structural change is likely to mitigate the market power that SoCalGas currently enjoys in southern California.

I.

SUMMARY OF RECOMMENDATIONS

Coral requests that the Commission take the following actions concerning the structural proposals advanced in the settlement agreement:

1. SoCalGas has market power with respect to storage and intrastate transmission in southern California by virtue of the size of its core procurement demand. An increase in the size of SoCalGas’ core portfolio would increase SoCalGas’ market power. The utilities’ proposal to combine SoCalGas and SDG&E’s core portfolios should be rejected.

2. Whether or not the two Sempra utilities’ core portfolios are combined, the Commission should adopt Coral’s proposed Core Portfolio Diversity Program. SoCalGas’ core portfolio should be separated into five equally-sized gas supply portfolios, each of which should be auctioned to a creditworthy wholesale supplier. If the Commission is not prepared to fully implement Coral’s proposed Core Portfolio Diversity Program at this time, the Commission should adopt a pilot program that allocates a portion of the core procurement demand to multiple creditworthy wholesale suppliers for an interim period.

3. If SoCalGas and/or SDG&E are permitted to retain responsibility for purchasing the gas supplies for their core procurement customers, the utilities’ procurement incentive mechanism should be modified in order to encourage a “portfolio” approach that includes index-priced purchases as well as hedged transactions. In addition, the following measures should be adopted in order to mitigate the exercise of market power by the core procurement department:

- Adopt meaningful minimum and maximum monthly storage inventory targets for the core procurement department;
- Adopt “exogenous” gas price benchmarks for purchases under the procurement incentive mechanism;
- Adopt gas price benchmarks that reflect an average of bidweek prices and daily prices; and
- Require the core procurement department to post each day on the electronic bulletin board the daily core load forecast as well as actual core gas purchases, core gas sales, core storage injections and withdrawals, and core Hub transactions.

4. The price charged by SoCalGas for unbundled storage service should be the lesser of “embedded cost” or “scaled long-run marginal cost.” Regardless of the price charged by SoCalGas for unbundled storage, however, all revenues from the sale of unbundled storage (in excess of cost) should be returned to ratepayers. SoCalGas should have balancing account treatment for its unbundled storage revenue requirement.

5. Unbundled storage should be allocated through a nondiscriminatory open season process. In the secondary market, a customer that permanently and completely releases its firm storage rights to an entity that meets SoCalGas’ creditworthiness requirements, at a price equal to the full amount of the contract price, should be relieved of any liability to SoCalGas for the released storage.

6. The core procurement department should be treated the same as every noncore customer for purposes of “balancing.” This means the following:

- The System Operator should be responsible for providing monthly balancing service to the core procurement department as well as to all noncore customers;
- All revenues received by the System Operator for balancing services should be returned to all utility ratepayers; and
- Additional storage assets (inventory, injection and withdrawal) should be allocated to the balancing function in order to

accommodate the core's 10 percent monthly imbalance tolerance.

7. The responsibilities of the System Operator should be clearly defined. The System Operator should manage system reliability, transmission, storage, firm access rights, balancing, and Hub services, all for the benefit of end-use customers. The System Operator should not be a profit center. All revenues in excess of the cost of the services provided by the System Operator should be returned to ratepayers. The "tools" to be used by the System Operator to maintain system reliability should be identified and pre-approved by the Commission. The System Operator should be subject to the same rules and charges, including but not limited to firm or interruptible receipt point access charges,¹ as all other market participants when it engages in the purchase and sale of gas, storage, and receipt point access rights.

8. In accordance with the Commission's firm access rights decision (D.06-12-031), all interruptible access charge revenues should be returned by the System Operator to utility ratepayers. All Hub service revenues should be returned to utility ratepayers, as well.

II.

INTRODUCTION

The Commission has an opportunity in this proceeding to adopt structural changes that mitigate the market power that SoCalGas currently enjoys with respect to storage and transportation in southern California. In his prepared testimony, Edison witness Stephen Pickett stated that Edison entered into the settlement agreement with SoCalGas and SDG&E in order to "achiev[e] market reforms that . . . address the components of the existing southern California gas market that . . . [have] the greatest potential for misuse of market power." Ex. 47 at pp. 5-6.

¹ See D.06-12-031 (December 14, 2006).

The Commission can and should ensure that each of the structural changes that is adopted in this proceeding reduces the potential for the exercise of market power by SoCalGas.

The Commission should adopt structural changes that reduce SoCalGas' market power with respect to storage. SoCalGas' core procurement department controls a majority of the storage capacity in southern California. Mr. Pickett testified that "SoCalGas' control over the use of large quantities of gas in storage provide[s] a mechanism by which the price of gas at the southern California border could be affected." Ex. 47 at p. 6. The Commission should adopt measures to ensure either that SoCalGas no longer controls most of the storage in southern California, or that SoCalGas' control of storage cannot be used to influence the price of gas at the border.

The Commission also should adopt structural changes that reduce the potential for SoCalGas to exercise market power through its gas cost incentive mechanism ("GCIM"). Mr. Pickett testified that "the GCIM provide[s] an incentive for SoCalGas to influence southern California border prices to realize shareholder gains at the expense of other market participants and electric ratepayers." Ex. 47 at p. 6. If the Commission allows SoCalGas to continue to purchase all of the gas supplies for its core procurement customers, the Commission should adopt modifications to the GCIM that limit the potential and the opportunity for SoCalGas to exercise market power.

Although some of the structural proposals in the settlement agreement are designed to limit the core procurement department's flexibility in some areas, the proposed structural changes do not relieve the market power concerns that arise from the size of the core portfolio and the breadth of the assets controlled by SoCalGas' core procurement department. In fact, some provisions of the settlement, if adopted, would enhance SoCalGas' market power by

increasing the size of the core portfolio, thereby increasing the assets over which SoCalGas' core procurement department exercises control. These provisions (e.g., consolidation of SoCalGas and SDG&E's core portfolios) should be rejected.

Coral recommends that the Commission adopt a new core procurement structure for the southern California market. Coral's proposed Core Portfolio Diversity Program is designed to mitigate, if not eliminate the exercise of market power by SoCalGas' core procurement department. Pursuant to the Core Portfolio Diversity Program, SoCalGas' core portfolio will be segmented into five equal blocks of core demand. Developing a gas purchase strategy for each "block" will be the responsibility of each creditworthy wholesale supplier selected through a bidding process. Approval of Coral's proposed Core Portfolio Diversity Program will ensure that no individual supplier controls sufficient storage, firm interstate capacity or firm receipt point access rights to exercise market power in southern California. The Core Portfolio Diversity Program will introduce competition and innovation into the core procurement market.

The utilities' proposed settlement agreement also addresses the terms and conditions of SoCalGas' unbundled storage program. Two of the key elements of utilities' unbundled storage proposal should be rejected. First, SoCalGas should be required to offer unbundled storage at cost-of-service-based prices, not market-based prices as the utilities propose. Second, without regard to the price charged by SoCalGas for unbundled storage, the revenues from SoCalGas' sale of unbundled storage (in excess of SoCalGas' costs) should be returned to ratepayers. SoCalGas should not be allowed to take advantage of its monopoly control over storage by retaining unbundled storage revenues for its shareholders.

Finally, SoCalGas and SDG&E agreed, as a part of the settlement, to shift certain responsibilities from the core procurement department to a "System Operator." A further

concern that must be addressed in this proceeding is the potential for the exercise of market power by the System Operator. The System Operator will be engaged in the purchase and sale of natural gas, as well as the purchase and sale of unbundled storage, receipt point access rights, and Hub services. The structural proposals advanced in the settlement would place few, if any, limits on the System Operator. Because the System Operator will be responsible for all transportation and storage on the SoCalGas/SDG&E System, the System Operator will have a competitive advantage in the southern California gas sales market. The Commission must ensure that the System Operator does not profit as a result of this competitive market advantage.

III.

ARGUMENT

A. **The Commission's Objective in this Proceeding Should be to Mitigate or Eliminate SoCalGas' Market Power in Southern California**

1. **SoCalGas' Core Procurement Group Enjoys Market Power in Southern California Based Upon its Control Over the Assets Reserved for Core Procurement Customers**

SoCalGas is the monopoly provider of storage service in southern California. Tr. 6/826 (Pickett).² With the Commission's recent adoption of "system integration" in D.06-04-033 (April 13, 2006), SoCalGas is also the monopoly provider -- the dominant provider -- of intrastate transportation service in southern California. *Id.* SoCalGas has "market power" in the

² The relevant geographic market in which SoCalGas operates, for purposes of determining market power with respect to storage and intrastate transmission, is southern California. *See* Tr. 69/831 (Pickett); Tr. 7/1009 (Dyer).

southern California market due to its position as the monopoly provider of storage and intrastate transmission. Tr. 6/828 (Pickett).³

Edison witness Stephen Pickett testified that the size of the load served by SoCalGas' core procurement department contributes to the market power that SoCalGas enjoys in southern California. Mr. Pickett testified:

[SoCalGas'] control, essentially, of all of the physical assets with respect to transportation and storage, plus their very significant core procurement activity as currently structured, gives them the ability to control the timing and the quantity of natural gas flows at all of the major interconnect points in southern California.

Tr. 6/825-26 (emphasis added). Mr. Pickett continued: "The quantity of storage that they have available to use for the core function allows them to control the quantity and timing of flows, independent of load, actual consumption of natural gas." *Id.* Mr. Pickett concluded that "[t]he combination of those factors gives [SoCalGas] a degree of market power that evidences itself in both the volatility and the prices at the California border, among other places." *Id.*

Coral witness Laird Dyer testified that SoCalGas' market power is derived from SoCalGas' dominant asset position and its purchasing power in the gas supply basins and at the southern California border. Ex. 59 at p. 5.⁴ Mr. Dyer noted that SoCalGas' core procurement department has the ability to exert market power and influence prices. *Id.* at p. 6. Referencing

³ "Market power" is defined as the ability to move the price of a relevant product in a relevant geographic market above a competitive level for a sustained period of time. *See* Tr. 1/102 (Van Lierop); Tr. 6/824 (Pickett); Tr. 7/1038 (Dyer). Michael Thorp, SoCalGas/SDG&E's counsel in this proceeding, acknowledged in I.02-11-040 that SoCalGas has "market power" in intrastate transmission and storage. *See* Ex. 5, p. 10.

⁴ Mr. Dyer noted, in this connection, that SoCalGas currently sells gas to 46 percent of the customer load on SoCalGas' system. *Id.*

statements made in the prepared testimony of Edison witness Pickett, Mr. Dyer noted that the concentration of large quantities of storage rights in a single entity provides the conditions for the “misuse of market power.” Ex. 59 (Dyer) at p. 7, citing Ex. 47 (Pickett) at p. 6.

Mr. Pickett testified that SoCalGas’ core procurement department “is a large customer in the broader natural gas market and [its] activities have an impact on prices and the availability of transportation and storage and other gas-related services in the broader market” Tr. 6/813. Mr. Pickett stated that the timing of the core procurement department’s storage injections, and the extent to which the core procurement department fills storage, can have an impact on market prices at the California border. Tr. 6/814. The core procurement’s actions thus have a direct impact on noncore markets. Tr. 6/813, 872 (Pickett).

According to Mr. Pickett, the source of SoCalGas’ market power in southern California is SoCalGas’ ability to physically affect the availability of flowing gas supplies at the California border. Tr. 6/838 (Pickett). This ability derives from the fact that SoCalGas purchases substantial gas quantities for core customers, and SoCalGas controls the timing and the quantity of gas flows and the storage function. Id. Mr. Pickett testified that SoCalGas’ role in procuring gas supplies for core customers, combined with its market power in the southern California storage market, gives SoCalGas market power in the Hub services market in southern California, as well. Tr. 6/837.⁵

The evidence in this proceeding showed that SoCalGas’ market power in southern California stems from its position as the sole purchaser of gas supplies for all of its core

⁵ Mr. Pickett testified that SoCalGas is in a unique position to know when its core procurement function – which is the largest single customer in the southern California market – will be going into the market. Tr. 6/839. SoCalGas knows the state of operational flows and can observe the impact that changes in operational flows have on the market. Id. SoCalGas’ ability to change the operation or actual flows to correspond with the time that will influence border prices gives SoCalGas the ability to potentially affect prices at the California border. Tr. 6/839-40 (Pickett).

procurement customers. Through its role as the core portfolio supplier, SoCalGas controls a large share of the assets (storage, intrastate pipeline capacity, interstate pipeline capacity, and (in the future) firm receipt point access rights) that are necessary for the management and delivery of gas supplies to core customers in southern California. Mitigation of SoCalGas' market power will only be truly possible if core procurement responsibility is partitioned and assigned to multiple suppliers.

2. Consolidation of the Two Utilities' Core Portfolios Would Increase SoCalGas' Market Power in Southern California

SoCalGas currently purchases an average of 1 Bcf of gas per day for SoCalGas' 5.5 million core procurement customers. See Ex. 35 (Goldstein) at p. 2. SoCalGas holds firm interstate capacity rights of approximately 985 MMcf/day on three pipelines, as well as a majority of the storage rights (70 Bcf of inventory, 327 MMcf/day of firm injection, and 1,935 MMcf/day of firm withdrawal) in the only underground storage facilities of any consequence in southern California. Id. at p. 3.

SDG&E's current average core procurement demand is 135 MMcf/day. Id. at p. 4. SDG&E holds firm capacity rights of approximately 150 MMcf/day on four interstate pipelines, as well as approximately 9 Bcf of storage inventory, 42 MMcf/day of firm storage injection rights, and 297 MMcf/day of firm withdrawal rights. Id. at p. 5.

Notwithstanding the market power concerns expressed by Edison witness Pickett, the utilities' proposed settlement agreement provides that SoCalGas' core portfolio should be combined with SDG&E's core portfolio and managed by a single core procurement department. See Ex. 35 (Goldstein) at pp. 6-8. If this proposal were to be adopted, the Sempra utilities' combined core portfolio demand on a peak winter day would be approximately 3.1 Bcf (2.7 Bcf/day for SoCalGas; 441/MMcf/day for SDG&E). See Tr. 5/656, 686 (Goldstein).

A combination of the two utilities' core portfolios would result in a single core procurement entity that holds firm interstate capacity rights of approximately 1.135 Bcf/day, as well as more than 50 percent of SoCalGas' storage inventory capacity (70 Bcf), close to 40 percent of SoCalGas' firm injection capacity (327 MMcf/day), and 70 percent of SoCalGas' firm withdrawal capacity (2,225 MMcf/day). Id.⁶ A combination of SoCalGas and SDG&E's core procurement functions would increase the Sempra utilities' market power as well as the potential for the exercise of that market power in southern California. Ex. 59 (Dyer, Coral) at p. 5; see also Tr. 6/861-62 (Pickett).

Mr. Pickett testified that the very size of the core procurement department presents the potential for SoCalGas to affect border prices. Tr. 6/846. Mr. Pickett testified that in the absence of the settlement, Edison would not support consolidation of SoCalGas and SDG&E's core procurement departments, acknowledging that core portfolio consolidation would, in and of itself, increase the extent of SoCalGas' market power in southern California. Tr. 6/861-62.

In D.02-08-065 (August 22, 2002), the Commission addressed SoCalGas and SDG&E's January 2001 application seeking authority to combine SoCalGas and SDG&E's core portfolios. In its Decision, the Commission deferred consideration of the utilities' proposal, stating:

When considered in [the] context of SoCalGas' unique position as a monopoly provider of gas transportation and storage services, and its access to and control of system information, we are troubled at the prospect of significantly increasing the scale and scope of what is already one of the largest local distribution company procurement operations in the country.

⁶ Under DRA's proposed approach, the combined core procurement department would hold at least 83 Bcf of storage inventory, 368 MMcf/day of firm storage injection rights, and 2,225 MMcf/day of firm storage withdrawal rights. See Ex. 71 (Sabino) at p. 5-6.

Decision at p. 13. The Commission stated, in D.02-08-065, that market power concerns that had been raised in the late 1990s in the Sempra merger proceeding (A.96-10-038) “remain relevant today.” *Id.* at p. 11. The Commission stated that the alleged benefits of portfolio consolidation “do not offset the potential downsides . . . to consolidating two of the largest supply and capacity portfolios in the State.” *Id.* at p. 10.⁷

In this proceeding, Edison witness Dr. Michael Alexander acknowledged that the same incentives that provided SoCalGas with an opportunity to exercise market power in the past continue in effect today. Tr. 7/1106-07; see also Tr. 8/1311 (Ramchandani, DRA). Consolidation of SoCalGas and SDG&E’s core portfolios would only increase the size of the “platform” from which the utilities have the opportunity to exercise market power.

In view of the concerns that have been raised by Edison and by the Commission regarding the exercise of market power by SoCalGas’ core procurement department, and in view of the potential for harm to the broader southern California market, core portfolio consolidation should be rejected unless the combined core portfolio is partitioned into separate blocks and allocated to individual wholesale suppliers.

B. Core Procurement Demand Should be Divided into Separate Blocks and the Core Procurement Function Should be Allocated to Multiple Wholesale Suppliers

1. Coral’s Proposed Core Portfolio Diversity Program Will Provide Substantial Benefits to Core Procurement Customers

In order to mitigate the market power concerns raised by Edison, and in order to increase competitive pressure in the core procurement market, Coral proposes to segment SoCalGas’ core procurement demand (or the Sempra utilities’ combined core procurement demand) by dividing

⁷ In D.02-08-065, the Commission noted that the projected savings in annual gas procurement overhead is “negligible” when considered in the context of the utilities’ overall portfolios. Decision at p. 15.

core demand into five equally sized gas supply portfolios (blocks). Ex. 59 (Dyer) at p. 7. While the utilities' core procurement department should remain responsible for sales of all core portfolio gas supplies to core procurement customers, responsibility for purchasing gas supplies for the core portfolio should be allocated through a competitive bidding process to five creditworthy wholesale suppliers. Id.

Apportionment of the core gas purchase function to multiple suppliers will mitigate the market power concerns that accompany SoCalGas as the single core supplier. Ex. 59 at p. 20. Coral's proposed Core Portfolio Diversity Program, if adopted, will ensure that no single entity holds sufficient upstream firm interstate capacity rights, intrastate capacity, firm receipt point access rights, or firm storage rights to exercise market power in southern California. Id. at p. 7. The introduction of five suppliers instead of a single supplier -- SoCalGas -- will promote competition and innovation, which in turn will benefit core procurement customers. Tr. 7/1009 (Dyer).⁸ Furthermore, adoption of a procurement incentive structure that encourages wholesale suppliers to compete against one another will reduce gas prices for all core procurement customers while maintaining reliability and providing greater price stability. Ex. 59 (Dyer) at pp. 7-8.

Under the Core Portfolio Diversity Program, the market power possessed by SoCalGas' core procurement department will be substantially mitigated because SoCalGas will no longer control the assets that are reserved for core procurement customers. The core procurement department will facilitate implementation of the Core Portfolio Diversity Program, as described below. Because individual WCPAs will operate under a procurement incentive mechanism, the

⁸ Mr. Dyer noted that under the current procurement structure, in which SoCalGas is the solitary purchaser of gas at prices that are tied to a monthly index, "there's not a lot of innovation within that . . . context." Tr. 7/1021.

core procurement department will no longer be subject to the GCIM. Rather, the core procurement department will simply flow through its purchased gas costs to core procurement customers on a dollar-for-dollar basis. See Ex. 59 at pp. 18-19.

In addition, through the solicitation process, prices bid by prospective suppliers will be lower than the benchmarks under SoCalGas' current GCIM. Prospective suppliers will provide gas cost savings to core procurement customers because suppliers will reflect the value of core assets (e.g., storage) in their bids to become wholesale core procurement agents ("WCPA"). Tr. 7/1014-15 (Dyer).

Finally, the procurement incentive mechanism under Coral's proposed Core Portfolio Diversity Program will promote independent development, by each WCPA, of a gas supply portfolio consisting of hedged products and index-priced products. Coral's proposed procurement incentive mechanism is designed to maintain reliability, achieve low costs, and reduce price volatility. See Ex. 59 at p. 20. All hedging costs and impacts will be included within the benchmark calculation. Id. Coral's proposed incentive structure will ensure the prudence of WCPAs' purchasing decisions. Id.

2. The Core Portfolio Diversity Program Provides a Comprehensive Core Procurement Structure

Coral witness Laird Dyer presented a comprehensive proposal through which the responsibility for purchasing core gas supplies will be transferred from SoCalGas (and SDG&E's) core procurement department to five independent wholesale suppliers. The key features of Coral's proposed Core Portfolio Diversity Program are as follows:

a. Selection of WCPAs

The Sempra utilities' total core procurement demand (approximately 1.135 Bcf/day) will be divided into five equal blocks. Responsibility for purchasing gas for each block will be

auctioned to a wholesale supplier (WCPA) through a competitive bidding process. Ex. 59 (Dyer) at p. 7.

Each prospective supplier will bid against a “price reference point” that reflects equally weighted first-of-the-month (“FOM”) and daily midpoint prices in the supply basins that are connected to SoCalGas’ system. Ex. 59 at p. 9; Tr. 7/1048 (Dyer).⁹ The weighting of the supply basin prices in the price reference point will be based upon the firm capacity held by the core procurement department on the interstate pipelines that are connected to the supply basins. Tr. 7/1011 (Dyer).¹⁰

Each supplier will bid an increment (premium) or a decrement (discount) to the price reference point. The suppliers that present the lowest bids, and that demonstrate creditworthiness, will be awarded blocks of core procurement demand. Ex. 59 at p. 9. Mr. Dyer testified that he expects the winning bids to reflect a discount of one to three percent below the price reference point. Tr. 7/1011.¹¹

⁹ Mr. Dyer testified that Coral proposes to introduce daily price indices into the calculation of the “benchmark” in order to better simulate SoCalGas’ core procurement load profile. Tr. 7/1049. Mr. Dyer testified that if Coral had had access to the core procurement customers’ average monthly capacity factor, Coral would have proposed a more accurate weighting of monthly (bidweek) prices and daily midpoint prices in the benchmark. Tr. 7/1052.

¹⁰ The price reference point thus will reflect an “exogenous” benchmark. Id.; Tr. 7/1011; 1023 (Dyer).

¹¹ Mr. Dyer expressed the view that bids will reflect a one to three percent “decrement” to the price reference point based upon his examination of the results of SoCalGas’ operations under its GCIM over the past twelve years. Tr. 7/1014. Mr. Dyer noted that in every year except the first year, SoCalGas earned a shareholder award based upon its ability to optimize core assets. Id. Mr. Dyer testified that the market will reflect, in suppliers’ bids to become WCPAs, the ability to optimize core assets by returning a portion of that value to core procurement customers. Tr. 7/1015. Mr. Dyer testified that prospective WCPAs will “offer a price that reflects value back to the core customers for what they are bringing to the table: . . . a broad array of assets. . . . That is valuable to the marketplace.” Tr. 7/1030.

Each successful bidder will be required to execute a contract with the core procurement department that sets forth the WCPA's rights and obligations. Ex. 59 at p. 17. The terms of the contract will be based upon a form that has been approved by the Commission. Id.¹² The contract will provide a detailed description of the WCPA's supply, storage and delivery obligations. Tr. 7/1021 (Dyer). The contract will set forth the consequences in the event of a default, including an enumeration of damages in the event of a failure to deliver gas as required under the contract. Tr. 7/1021 (Dyer). The term of each WCPA's contract should be for three years or for some similar period of time that provides a meaningful opportunity for a WCPA to establish a core procurement program. Ex. 59 (Dyer) at p. 10.

b. Assignment of Core Assets to the WCPA

Physical assets and contractual assets held by the core procurement department will be allocated in equal portions to each WCPA. See Ex. 59 (Dyer) at pp. 10-11. Each WCPA will be assigned a proportionate share of the core procurement department's firm storage rights (inventory, injection and withdrawal), firm interstate capacity rights (either through capacity release or through delivery rights at upstream interstate receipt points), and firm access rights at receipt points on the SoCalGas system. Id. The core procurement department will continue to be responsible for decisions regarding the purchase of firm interstate capacity, storage, and firm receipt point access rights for all core procurement customers. Id. at p. 11. WCPAs will be allocated a proportionate share of whatever assets have been obtained by the core procurement department. Id.

¹² Mr. Dyer testified that as a wholesale supplier, the WCPA is not subject to Commission jurisdiction. Tr. 7/1059. Nevertheless, the Commission will exert substantial control over the WCPA through the terms and conditions of the contract. See Ex. 59 at p. 17; Tr. 7/021 (Dyer).

c. Operational Obligations Imposed Upon Each WCPA

In accordance with the terms of its contract, each WCPA will be responsible for delivering, each day, its proportionate share of forecasted daily core procurement demand to SoCalGas' core procurement department. Ex. 59 (Dyer) at p. 12. The forecast of core procurement demand will be provided by the System Operator. Id. Each WCPA will be subject to the utility's monthly balancing requirements, winter balancing rules, as well as any OFOs that may be called by the System Operator. Id. at p. 17.

Each WCPA also will be responsible for meeting its proportionate share of the monthly storage targets that are established by the Commission for the core procurement department. Id. at p. 12. A failure to meet its monthly storage target would be a "default" under its contract. Id. at p. 17.

Additionally, each WCPA will be obligated, under the terms of its contract, to provide "backstop" service in the event of a default by another WCPA. Id. A WCPA's backstop obligation will be managed by the System Operator. Id. The provision of backstop service by the other WCPAs ensures that the core procurement department will not have to step in to the gas purchase obligation in the unlikely event of a default by a WCPA. See Tr. 7/1016-17 (Dyer).¹³

d. Gas Purchase Incentive Mechanism

An important feature of Coral's proposed Core Portfolio Diversity Program is the procurement incentive mechanism that will apply to each WCPA's gas purchases for its block of core portfolio demand. In fact, as is described in more detail below, Coral proposes that this

¹³ Mr. Dyer testified that the creditworthiness criteria that will be applied in the bid solicitation process, combined with provisions of the contract between the WCPA and SoCalGas' core procurement department, make it highly unlikely that any WCPA would default on its obligations. Tr. 7/1016.

modified gas purchase incentive mechanism should apply whether the core procurement function is allocated to multiple wholesale suppliers, as proposed by Coral, or whether the responsibility for purchasing gas supplies for core procurement customers remains with the utility. See Ex. 59 (Dyer) at p. 24.

Coral's proposed gas purchase incentive mechanism is designed to encourage the procurement entity to pursue a portfolio of gas supplies that is characterized by high reliability, low prices, and low gas price volatility. Ex. 59 at p. 15; Tr. 7/1010 (Dyer). The proposed incentive mechanism will encourage the development of a balanced portfolio that includes index-priced gas supplies as well as hedged (i.e. fixed-price and options) transactions. Coral's proposed incentive mechanism will encourage the gas supplier to leverage all of its assets, skills and experience to achieve low prices and stable prices for core procurement customers. The proposed incentive mechanism rewards prudent gas purchase decisions as well as prudent financial management of fixed price products. The proposed incentive mechanism is also designed to eliminate the audit requirement that is a part of the current GCIM review process. Tr. 7/1011 (Dyer).

Under Coral's proposed incentive structure, each WCPA will have an opportunity to share in gas cost savings with core procurement customers. For all index-priced purchases, the WCPA will be paid the "benchmark" price: i.e. the price that was offered by the WCPA in the initial auction. Tr. 7/1044 (Dyer).¹⁴ This approach ensures transparency and eliminates the need for an audit of WCPA gas purchases. See Tr. 7/1011, 1043 (Dyer). All gas cost savings or

¹⁴ Mr. Dyer testified that in view of the opportunities that exist to "optimize" the use of core assets, he expects that offers by marketers to serve as WCPAs will produce benchmark prices that are one to three percent below the "price reference point." See Tr. 7/1011.

excess gas costs resulting from index-priced purchases (i.e. gas purchases priced against monthly or daily index prices) will be the responsibility of the WCPA. Tr. 7/1011 (Dyer).

For all fixed price transactions and other “hedged” transactions, however, the core procurement department will obtain hedged products on behalf of and at the direction of each WCPA. Ex. 59 at pp. 18-19; Tr. 7/1024 (Dyer).¹⁵ If, in a particular month, the hedged product yields a price that is less than the benchmark, the monthly cost savings will be included in the WCPA’s total cost savings that is calculated at the end of the year. Ex. 59 at p. 14; Tr. 7/1044 (Dyer). If, in any month, the hedged product results in a price that is higher than the benchmark, the excess cost will not be counted against the cost savings that is calculated at the end of the year. Ex. 59 at p. 14; Tr. 7/1026, 1045 (Dyer).

Coral’s proposed incentive structure is designed to encourage the WCPA to develop a portfolio of supplies that includes hedged products and index-priced products. Ex. 59 at p. 15. The incentive structure will motivate each WCPA to purchase fixed price supplies at the lowest possible prices in order to allow the WCPA to share in the gas cost savings. Id. WCPAs will be held harmless for fixed price purchases that exceed the monthly benchmark in order to encourage hedging and to promote the development of a core portfolio that provides a high level of price certainty. Id. at pp. 14-15; Tr. 7/1026 (Dyer).

The incentive structure will encourage competition between and among WCPAs. Under Coral’s proposed structure, the WCPA that achieves the greatest annual gas cost savings (compared against its benchmark) will receive an incentive payment of 50 percent of the cost savings, up to a “cap” of \$15 million. The WCPA that achieves the second greatest annual cost

¹⁵ Coral proposes that SoCalGas’ core procurement department should enter into the hedged transaction on behalf of the WCPA in order to provide price transparency and to prevent the WCPA from entering into transactions that would have to be segregated and audited. Tr. 7/1024-25 (Dyer).

savings will receive an incentive payment equal to 35 percent of the annual cost savings, up to a cap of \$7.5 million. All other WCPAs will be eligible for an incentive payment equal to 20 percent of the annual cost savings, subject to a cap of \$5 million per supplier. See Ex. 59 at p. 13.

e. Implementation of the Core Portfolio Diversity Program

Coral witness Dyer acknowledged that adoption of Coral's proposed Core Portfolio Diversity Program will result in a significant departure from the current monolithic utility core procurement structure. Tr. 7/1012. If the Commission determines that the framework of the Core Portfolio Diversity Program should be adopted, the Commission may wish to conduct a second phase of this proceeding in order to address the implementation details of the new procurement structure.

Although Coral believes that it is appropriate for the Commission to approve and fully implement the Core Portfolio Diversity Program at this time, Mr. Dyer testified that the Commission could approve a "pilot" program that allocates a limited portion of core procurement demand to wholesale suppliers for a limited period of time. Tr. 7/1012-13. Mr. Dyer testified that through a pilot program, the Commission could gain valuable information and experience (e.g., the value of core assets reflected in supplier bids) that would assist the Commission in administering a program for the Sempra utilities' entire core procurement demand. Id.

Whether the Core Portfolio Diversity Program is approved and implemented in full or as a pilot program, Coral submits that the time is right for the Commission to adopt a new core procurement structure in southern California. In view of the size of SoCalGas' core procurement load, the only reasonable means by which to mitigate SoCalGas' market power with respect to the storage and transport assets held for the core procurement load is to segment the core

portfolio. Coral's proposal, if implemented, will eliminate market power concerns, stimulate competition among suppliers for the privilege of purchasing gas for the core procurement market, promote a robust market, and add a new dimension to the current gas procurement incentive mechanism.

C. If the Commission Decides that the Sempra Utilities Should Retain the Core Procurement Function, the Procurement Incentive Mechanism Should Be Modified to Encourage a Portfolio Approach to Gas Purchasing.

1. Background

SoCalGas and SDG&E's current procurement incentive mechanisms were adopted in a gas market environment characterized by substantial over-supply, gas-on-gas competition, low prices, and low price volatility. See Ex. 59 (Dyer) at p. 16; Tr. 7/1029 (Dyer). The utilities' procurement incentive mechanisms, which are largely unchanged from the mechanisms originally approved by the Commission, are "benchmarked" to monthly gas price indices. See Tr. 5/662-63 (Goldstein). TURN witness Michel Florio testified that the utilities' current procurement incentive mechanisms encourage gas cost minimization, but only relative to market prices at a given point in time. Tr. 4/491-92.

The current incentive mechanisms encourage gas purchases by the utilities that are priced on a monthly (or daily) basis. Tr. 7/1021 (Dyer); Tr. 8/1292 (Sabino, DRA). The incentive mechanisms discourage long-term fixed price contracts and other hedged transactions. Tr. 1/72, 79 (Van Lierop, SoCalGas/SDG&E); Tr. 8/1293 (Sabino). The current GCIM structure holds SoCalGas accountable for its gas cost performance relative to market benchmarks, but not for the absolute level of gas prices. Tr. 1/71 (Van Lierop). The current incentive mechanisms

discourage the attainment of low gas prices and low price volatility. Ex. 59 at p. 15; Tr. 7/1026 (Dyer).¹⁶

The gas market has changed fundamentally since the utilities' gas purchase incentive mechanisms were initially adopted. The gas market is now characterized by high gas prices, a very tight supply/demand balance, and high gas price volatility. Tr. 8/1290-91 (Sabino); Ex. 59 (Dyer) at p. 16; Tr. 7/1026, 29 (Dyer).¹⁷ Because the existing GCIM structure exposes core procurement customers to market prices, the utilities' gas purchase practices expose core customers to price volatility. Tr. 1/71 (Van Lierop). The existing incentive mechanisms fail to align core customer interests with the interests of the utilities' shareholders. Tr. 7/1026-27 (Dyer). The utilities' procurement incentive mechanisms must be adjusted to reflect the "new reality" in the gas market. Ex. 59 (Dyer) at p. 16.

2. The Commission Has Not Articulated a Policy Respecting the Role of Hedging in the Core Portfolio

SoCalGas/SDG&E witness Dr. Johannes Van Lierop and DRA witness Pearlie Sabino testified that the Commission has not established a "policy" or "guidelines" respecting the scope or the nature of core portfolio hedging that should be engaged in by the gas utilities. See

¹⁶ SoCalGas and SDG&E have authority, under the existing structure, to engage in hedging within the framework of their respective incentive mechanisms. Tr. 1/69-70 (Van Lierop). Nevertheless, Dr. Van Lierop testified that SoCalGas does not currently have any gas purchase contracts under which it purchases gas at prices that are fixed for more than one month. Tr. 1/70. Dr. Van Lierop testified that SoCalGas' core procurement policy is to "float with the market" on a month-to-month basis, while focusing its hedging activities mostly on the winter months. Id. Dr. Van Lierop acknowledged that SoCalGas' existing GCIM does not encourage SoCalGas to enter into fixed price (hedged) transactions. Id.; Tr. 1/79. In fact, Dr. Van Lierop testified that the GCIM structure discourages a large volume of fixed price contracts. Tr. 1/72.

¹⁷ TURN witness Michael Florio agreed that gas prices today are both higher and more volatile than they were when the GCIM was developed. Tr. 4/492-93.

Tr. 1/83 (Van Lierop); Tr. 8/1289-90 (Sabino).¹⁸ The Commission has not established principles that address hedging as a part of a comprehensive core procurement strategy.

Moreover, the utilities' application herein does not seek Commission guidance regarding the appropriate conditions for core portfolio hedging. The utilities' application does not seek guidance regarding the inclusion of core portfolio hedges within the GCIM, or even guidance regarding revisions to core procurement policy. Instead, the utilities request Commission approval of an annual gas procurement planning process, including a "winter hedging plan," that allows the utilities to set procurement policy on an ad hoc, year-to-year basis. In this connection, the utilities propose that the costs and benefits of core winter hedges should be accounted for outside the GCIM for the five-year term of the settlement. See Ex. 2 (Van Lierop) at p. 7.¹⁹

Dr. Van Lierop testified that SoCalGas and SDG&E are not asking the Commission, in this proceeding, to establish a "policy" with respect to winter hedging for the next five years. Tr. 1/84. Rather, Dr. Van Lierop testified that the utilities' annual procurement plan, including the winter hedging proposal, would be the "vehicle through which the Commission will look at hedging polic[y] as it applies to SoCalGas and the combined portfolio." Id. The utilities' ad hoc approach to procurement policy should be rejected.

If the utilities are to continue to purchase gas for their core procurement customers, the Commission must establish a policy that will apply with respect to hedging core portfolio purchases. The Commission should not, as Dr. Van Lierop suggests, address core portfolio

¹⁸ TURN witness Michel Florio agreed that the Commission has not adopted a formal policy with respect to "hedging" by the utilities. Tr. 4/493.

¹⁹ The utilities propose that the core procurement department's winter hedging plan should be included in SoCalGas' annual gas procurement plan. Ex. 2 (Van Lierop) at p. 7; Ex. 35 (Goldstein) at p. 8-9.

hedging on an annual basis. The Commission should adopt an incentive structure that includes core portfolio hedges within the procurement incentive mechanism.

3. The Commission Should Modify the GCIM to Incorporate Hedged Transactions Within the Incentive Structure

The utilities should be encouraged to develop a gas supply portfolio that includes a mix of index-priced gas supplies and hedged transactions. Including fixed price and options products as a portion of the core gas supply portfolio will maintain gas supply reliability, reduce gas price volatility, and provide the opportunity for meaningful cost savings for core customers. Ex. 59 (Dyer) at pp. 23-24.

Coral urges the Commission to adopt the same incentive structure for the Sempra utilities that Coral has proposed herein (see supra at pp. 17-20) for WCPAs. Specifically, the GCIM should be modified so that the utility is held harmless when the gas price under a fixed price transaction exceeds the benchmark in any month. If the price under a fixed price transaction is below the benchmark in a particular month, however, the utility should be eligible to share in the gas cost savings. See Tr. 7/1026 (Dyer).

Mr. Dyer testified that under Coral's proposed incentive approach, the risk to the core is that the core will pay a price that is higher than the market price in a certain month; however, core procurement customers will enjoy greater price stability within the overall core portfolio. Tr. 7/1026-27 (Dyer). Mr. Dyer testified that Coral's proposed modification to the GCIM is intended to "marry up" the concepts of greater price stability and the lowest possible cost gas supply. Tr. 7/1027.

4. The Utilities' Proposal for an Annual Core Procurement Plan (and a Winter Hedging Plan) Should be Rejected

The utilities' proposal to seek annual approval of a core gas procurement plan is devoid of any substance. The utilities' winter hedging proposal, for example, fails to address the

parameters of the annual winter hedge plan. See Tr. 1/74 (Van Lierop). The winter hedging proposal fails to provide cost limits or other limitations on the types (or the timing) of hedge transactions in which the core procurement department seeks to engage. Id. These “details” would be left to the plans that are submitted each year by SoCalGas’ core procurement department. Tr. 1/84 (Van Lierop).

The utilities propose to submit their annual procurement plan, including the winter hedging plan, to the Commission on a confidential basis. See Ex. 35 (Goldstein) at p. 9.²⁰ Prior to submitting the plan to the Commission, however, the utilities would submit the annual procurement plan, including the winter hedge plan, to a Gas Procurement Review Group (“Gas PRG”) consisting of consumer representatives such as TURN and DRA. Ex. 35 (Goldstein) at p. 9. Dr. Van Lierop testified that these non-market participants “certainly have a lot of experience in this area.” Tr. 1/75. Dr. Van Lierop’s statement could not be further from the truth. Witnesses for TURN and DRA acknowledged that they have no experience transacting in the physical or financial markets for natural gas.

Specifically, TURN witness Michel Florio acknowledged that TURN does not engage in the purchase of natural gas. Tr. 4/493. Mr. Florio acknowledged that TURN does not enter into fixed price transactions or hedged transactions. Tr. 4/494. TURN does not transact business in the gas market. Id. TURN does not put its own capital at risk in energy transactions. Id.

²⁰ If, as asserted by Dr. Van Lierop, SoCalGas and SDG&E seek to have the Commission address winter hedging “policy” in the Commission’s review of the utilities’ annual procurement plans, all market participants will be excluded from any meaningful participation in the development of this policy. See Ex. 35 (Goldstein) at p. 9; Tr. 1/74-75 (Van Lierop). Mr. Morrow acknowledged that market parties points will have the opportunity to comment on the utilities’ annual gas procurement plan as well as the annual winter hedging plan, but they will not be able to see them. Tr. 3/334.

DRA witness Pearlie Sabino testified, as well, that DRA does not transact business in the physical gas market or in the financial market for natural gas products. Tr. 8/1299. DRA is not involved in the market for risk management products in the energy market. Id. DRA does not engage in any transactions relating to the purchase, sale or trading of natural gas. Tr. 8/1300.

The Commission should reject the utilities' proposal to submit an annual gas procurement plan for the Commission's review and approval. Review of an annual gas procurement plan by a Gas PRG comprised of non-market participants would provide no meaningful oversight of the utilities' procurement activities.

The Commission should also reject the utilities' proposal to account for all of the costs and benefits of winter hedge transactions outside the procurement incentive mechanism for the next five years. The utilities' proposed approach would separate the utilities' hedging decisions from any risk or reward and would remove any motivation for the utility to purchase these products prudently. Mr. Dyer testified that "[i]f the gas supplier [i.e. the utility] is financially indifferent to the outcome, the gas supplier will not act in the customers' best interest." Ex. 59 at p. 16.²¹

Coral submits that whether the purchaser of gas supplies for core procurement customers is a WCPA or the utility's core procurement department, the incentive mechanism must be structured to encourage the supplier to develop a gas supply portfolio that includes a combination of index-priced products and hedged products. If the Commission decides that the Sempra utilities should continue to purchase the gas supplies for core procurement customers, the

²¹ In D.06-08-027 (August 24, 2006), the Commission approved a one-year winter hedging program for SoCalGas (and SDG&E) under which the utilities were authorized to expend up to \$14 per core customer on winter hedges. See Decision at p. 25. For SoCalGas, the maximum total expenditure approved by the Commission was \$77 million (\$14 times 5.5 million core procurement customers). Under this "no risk, no reward" approach, SoCalGas has little, if any incentive to purchase hedges on a prudent, least cost basis.

utilities' procurement incentive mechanism must be modified to reflect the costs and the benefits of hedges within the incentive structure.

D. Changes Should be Made to the GCIM to Mitigate SoCalGas' Market Power in Southern California.

Edison witness Pickett testified that during the winter of 2000, SoCalGas' GCIM provided "perverse incentives" for SoCalGas' core procurement department to raise prices and increase volatility in California's gas markets by engaging in manipulative hub, storage, and gas purchase activities. Tr. 6/866-67. Mr. Pickett also testified that during the winter of 2000, the GCIM provided SoCalGas with incentives to take actions to create daily price fluctuations relative to the established monthly bidweek prices. Tr. 6/867.

When asked whether the GCIM continues to provide SoCalGas with these "perverse incentives" today, Edison witness Dr. Michael Alexander testified that because the GCIM continues to reflect Hub service revenues, SoCalGas' GCIM continues to provide perverse incentives for the core procurement department to raise prices and increase volatility in California's gas markets. Tr. 7/1106-07; see also Tr. 8/1311 (Ramchandani, DRA).

Dr. Alexander emphasized, in this connection, that the GCIM provides perverse incentives both to raise prices and to increase gas price volatility in the southern California market. Tr. 7/1107.

Mr. Pickett testified further regarding Edison's concerns about the incentives that exist under SoCalGas' GCIM. For example, by permitting revenues from Hub services to reduce the monthly benchmarks under the GCIM (even when unrelated to reductions in gas procurement costs), Mr. Pickett stated that the GCIM increases the incentive and the opportunity for SoCalGas to exercise market power and engage in market manipulation. Tr. 6/869-70.

Mr. Pickett also testified that the GCIM provides the core procurement department with an incentive to raise gas prices and to engage in profitable “aftermarket” sales. Tr. 6/870.²²

Mr. Pickett testified that as of the winter of 2000, the core procurement department’s ability to exercise the “free option” to make aftermarket sales provided SoCalGas with a “pernicious incentive” to exercise its market power and create price volatility at the California border.

Tr. 6/871-72. Dr. Alexander confirmed that this incentive continues to exist today.²³

Mr. Pickett testified, in this connection, that the GCIM provides the core procurement department with the incentive to engage in Hub activities and storage activities that adversely affect the market. Tr. 6/872. He testified that the incentives under the GCIM operate against noncore gas customers’ interests, and against electric customers’ interests. *Id.* Mr. Pickett stated that the GCIM provides “perverse incentives” for SoCalGas to raise border prices thereby harming California’s noncore gas and electric customers. Tr. 6/872.²⁴

Notwithstanding the extensive concerns that have been raised about “perverse incentives” under the GCIM, the utilities have not proposed one single change to the structure of the GCIM in this application proceeding. In fact, Dr. Van Lierop testified that the utilities’ proposal to

²² Mr. Pickett explained that under the GCIM, SoCalGas enjoys a “free option” to purchase gas prior to the beginning of the month at bidweek prices, and then to resell the gas in the aftermarket (during the month) for a higher price. Tr. 6/870. If SoCalGas sells the gas for a higher price in the “aftermarket,” the core procurement department benefits under the GCIM by sharing in the gas cost savings. *Id.*

²³ Dr. Alexander confirmed that the GCIM has not been modified since 2000 to eliminate the “pernicious incentives” that exist under the GCIM. Tr. 7/1106-07. In this connection, SoCalGas/SDG&E witness Goldstein acknowledged that the GCIM continues to allow SoCalGas’ core procurement department to engage in aftermarket sales of gas that is purchased but not used (or stored) for core procurement customers. Tr. 5/679. *See also* Ex. 59 (Dyer) at pp. 23-24.

²⁴ Mr. Pickett testified that these “perverse incentives” existed as the GCIM was structured in the winter of 2000. Tr. 6/872. Dr. Alexander confirmed that the perverse incentives continue to exist today. Tr. 7/1106-07.

combine SoCalGas and SDG&E's core portfolios includes a proposal to maintain the current structure of SoCalGas' current GCIM. Tr. 1/75.²⁵

Coral submits that if the Sempra utilities are allowed to continue to purchase gas for all core procurement customers, changes should be made to the GCIM in order to mitigate the potential for the exercise of market power by the core procurement department.²⁶ The Commission should adopt the following changes to the GCIM:

First, the Commission should replace the current gas price benchmarks in the GCIM with "exogenous" benchmarks. See Tr. 7/1011, 1023 (Dyer). Second, the benchmarks for each supply basin (and the California border) should reflect an equal weighting of FOM (bidweek) prices and daily midpoint prices. See Ex. 59 (Dyer) at p. 9; Tr. 7/1048-49 (Dyer).

Third, the GCIM should be modified to reduce the tolerance bands for gas purchase costs above and below the benchmark. See Tr. 7/1030 (Dyer). The tolerance bands should be reduced because including daily prices in the benchmark reduces SoCalGas' price exposure to load variations. In addition, reduced tolerance bands will reflect the significant "option value" that the core procurement department enjoys through its control of core assets.

Coral's proposed changes to the GCIM are addressed below.

²⁵ Except as necessary to accommodate SDG&E's purchases of Canadian gas, the utilities propose no changes to the benchmarks under the GCIM. Id. The utilities also do not propose to change the tolerance bands under the GCIM, or to change the manner by which Hub revenues are reflected in the GCIM. See Tr. 1/76, 93 (Van Lierop).

²⁶ In the Commission's border price spike investigation proceeding (I.02-11-040), the Presiding Judge recommended that the revenues from Hub services provided by the core procurement group should be removed from the GCIM. See Tr. 6/877 (Pickett). The Judge also recommended that the revenues from noncore gas sales (i.e. aftermarket sales) should be removed from the GCIM. Id.

1. **The Benchmarks under the GCIM Should Reflect an Equal Weighting of FOM Prices and Daily Midpoint Prices**

The benchmarks in the GCIM should reflect an equal weighting of FOM (bidweek) prices and daily midpoint prices in the supply basins to which the core procurement department's firm interstate capacity rights are connected. Under the current GCIM structure, the benchmarks reflect FOM prices only. Tr. 5/662 (Goldstein). SoCalGas purchases gas not only during bidweek, however, but throughout the course of the month. Tr. 5/665 (Goldstein). SoCalGas' actual gas purchase (and gas sales) prices are reflected in the GCIM, but the prices for its gas purchases are measured exclusively against the FOM price. *Id.*

Because the GCIM reflects only FOM prices, SoCalGas enjoys a costless, "risk-free option" to purchase excess core gas at FOM index prices with the hope of re-selling the excess gas into daily markets (i.e. aftermarket sales) at higher prices. *See* Tr. 5/679-80 (Goldstein); Tr. 6/870-72 (Pickett); Tr. 7/1052 (Dyer); Ex. 59 (Dyer) at p. 24. The profits from the core procurement department's sales of gas at higher daily prices (compared to bidweek prices) are included in the GCIM. Tr. 5/680 (Goldstein). In the event that daily prices do not exceed the FOM index price, SoCalGas is able to inject the excess core gas into storage without penalty under the GCIM. *Id.*; Tr. 5/681-83, 685 (Goldstein); Ex. 59 (Dyer) at p. 24.

The GCIM's exclusive reliance upon FOM index prices encourages SoCalGas to purchase more gas during bidweek than is required for the combination of core burn and core storage injections. *See* Ex. 59 (Dyer) at pp. 23-24. In order to reduce SoCalGas' incentive to

purchase excess core supplies, the Commission should adjust the GCIM to reflect, in the benchmark, a balance of FOM prices and daily midpoint prices.²⁷

2. The GCIM Should Reflect Exogenous Gas Price Benchmarks

The index prices in the GCIM benchmark are weighted based upon SoCalGas' actual purchases in each gas supply basin (or at the California border). Tr. 5/660 (Goldstein); Tr. 1/120 (Van Lierop). The weighting of index prices based upon actual purchases relieves SoCalGas of the obligation to pursue a least cost dispatch of its firm interstate capacity rights. Whether gas supplies are less expensive in the San Juan Basin or in the Permian Basin, for example, the GCIM benchmark is weighted toward the supply basin in which SoCalGas has purchased more of its core gas supplies. Tr. 5/662 (Goldstein). This approach provides the wrong signal to SoCalGas' core procurement department.

The GCIM should be modified to incorporate "exogenous" benchmarks - - the same methodology that is used in PG&E's core procurement incentive mechanism. See Tr. 7/1011, 1023 (Dyer).²⁸ Specifically, the GCIM benchmarks should reflect a weighting of gas supply basin (and California border) indices that is consistent with the relative quantity of firm interstate capacity rights held by the core procurement department on each pipeline on which the core

²⁷ Coral has proposed a 50/50 weighting of FOM prices and daily midpoint prices in the benchmark. Ex. 59 (Dyer) at p. 9. If SoCalGas' actual core procurement load profile were to be made available to the Commission, the weighting of FOM prices and daily midpoint prices should be adjusted to reflect SoCalGas' monthly average capacity factor (with the capacity factor in each month defined as the average daily load divided by the maximum daily load). See Tr. 7/1051-52 (Dyer). Reflecting the actual load profile in the benchmark price would reduce the "optionality" inherent in the core portfolio under the current GCIM structure, and would argue for a reduction in the tolerance bands. Tr. 7/1052 (Dyer).

²⁸ Exogenous benchmarks are used for the index prices in PG&E's CPIM. See D.97-08-055 (August 1, 1997)

procurement department holds firm interstate capacity rights. Tr. 7/1011, 1023 (Dyer). This approach will encourage the core procurement supplier to optimize gas purchases in those supply basins where the core procurement supplier holds firm capacity rights.

3. The Tolerance Bands in the GCIM Should be Tightened

The “tolerance bands” that are included within the GCIM should be lowered. Mr. Dyer testified that the current tolerance bands do not reflect the value to SoCalGas of being able to “optimize” the assets that are used by the core procurement department. Tr. 7/1030. The tolerance bands under the GCIM should be adjusted to reflect that value.

Under the current GCIM structure, SoCalGas’ ratepayers bear all excess gas costs up to 2 percent above the benchmark. Ex. 35 (Goldstein) at p. 4. In SoCalGas’ GCIM application for the year ended March 31, 2006 (Ex. 38), the total cost of gas was approximately \$3 billion. Tr. 5/666 (Goldstein). If SoCalGas’ actual purchased gas costs in 2006-2007 had exceeded the applicable benchmark, SoCalGas’ core procurement customers would have borne excess purchased gas costs up to \$60 million without any cost sharing by SoCalGas’ shareholders. Tr. 5/667 (Goldstein).

In view of the opportunities that exist for SoCalGas’ core procurement department to “optimize” the assets (e.g., storage, flowing gas) that are held for the benefit of core procurement customers, the upper tolerance band of the GCIM should be eliminated. SoCalGas’ shareholders should be responsible for any purchased gas costs that exceed the benchmark.

By the same measure, the current GCIM structure provides that SoCalGas’ shareholders begin to share in the gas cost savings at one percent below the benchmark. See Ex. 35 (Goldstein) at p. 4. For the GCIM year ended March 31, 2006, SoCalGas’ shareholders begin to share in any gas cost savings beyond approximately \$30 million. See Ex. 38. Once again, in view of the opportunities that exist for the core procurement department to “optimize” the assets

reserved for SoCalGas' core procurement customers, SoCalGas shareholders should not share in the gas cost savings until the actual gas costs are at least two percent below the benchmark. See Tr. 7/1030 (Dyer).

Dr. Van Lierop testified that SoCalGas has a "range of flexibility" as to how to use the assets that have been reserved for the core procurement department. Tr. 1/26. He testified, for example, that SoCalGas has the ability to "monetize" its underutilized core storage assets by providing Hub services: i.e. "parks" and "loans." Tr. 1/27.

Dr. Van Lierop testified further that SoCalGas' core procurement department has the authority to buy and sell gas at the California border. Id. Dr. Van Lierop testified that "if it's economical to ship gas from the basin to the border, our core customers will benefit by doing it, . . . either because the core needs the gas for itself or, in the alternative, the core may not need the gas, but it can sell the gas at the border and thereby realize the value of pipeline capacity that it pays for." Tr. 1/98. He indicated that the flexibility SoCalGas currently enjoys with respect to storage and interstate capacity enables SoCalGas to "optimize" the assets held by the core procurement department. Id.

Dr. Van Lierop conceded that without SoCalGas' ability to engage in Hub transactions and border gas sales, the magnitude of the gas cost savings -- and thus the magnitude of shareholder awards -- would be diminished under the GCIM. Tr. 1/98-99. Clearly, modifying the lower tolerance band under the GCIM would ensure that relatively more of the value of core procurement customers' reserved assets would be returned to core procurement customers.

E. The Core Procurement Department's Proposed Minimum Monthly Storage Inventory Targets Should be Modified.

The utilities propose minimum monthly storage inventory targets for the core procurement group for the months May through October. SoCalGas/SDG&E witness Van

Lierop testified that the proposed minimum monthly core storage inventory targets would reduce the core procurement department's flexibility with respect to the use of storage. Tr. 1/29.

Edison witness Pickett testified that the agreed upon monthly storage inventory targets would "provide limits on fluctuations in injections by SoCalGas, thereby limiting the potential for such fluctuations to impact forward gas prices." Ex. 47 at p. 7.

Coral strongly disagrees with the assessments made by these SoCalGas/SDG&E and Edison witnesses. The fundamental assumptions underlying the utilities' proposed minimum monthly storage inventory targets are inconsistent with reality and, if adopted, would lead to largely unfettered storage injection flexibility on the part of the core procurement department.²⁹ Moreover, the utilities' proposed minimum monthly storage targets would focus core storage injections (and thus increase pipeline capacity utilization) in those months when electric generation load is highest.

Coral submits that minimum monthly storage inventory targets should reflect the actual core storage inventory at the beginning of the injection season. The minimum monthly storage inventory targets should reflect uniform monthly injections during the course of the injection season. In addition, maximum monthly storage injection limits should apply in those months when electric generation load is highest.

²⁹ The proposed minimum monthly storage inventory targets are far more lenient than exist today. By way of comparison, in February 2006, DRA, TURN and SoCalGas filed a joint recommendation in SoCalGas' Year 11 GCIM application (Ex. 38) in which they agreed to a minimum core storage inventory target of 49 Bcf for July 31, 2006. See Ex. 2 (Van Lierop) at p. 2. Under the proposal herein, the minimum core storage inventory target for July would be only 29.9 Bcf. Id. at p. 4.

1. **The Assumption of Zero Storage Inventory on March 31 Provides Virtually Unlimited Storage Injection Flexibility**

The utilities' proposal for minimum monthly storage inventory targets assumes that the core storage inventory will equal zero on March 31. Ex. 2 (Van Lierop) at p. 4. The utilities' proposal further assumes that the core procurement department will make uniform monthly gas purchases during the seven-month storage injection period. Id. The resulting minimum monthly storage inventory targets equal "the cumulative difference between uniform monthly purchases and the forecasted cold-year throughput levels." Id.

Based upon forecasted cold year throughput volumes taken from the 2006 California Gas Report, the utilities' proposed monthly storage minimum inventory targets are as follows:

<u>Month</u>	<u>Minimum Storage Inventory (Bcf)</u>
April	0.0
May	4.5
June	15.6
July	29.9
August	44.2
September	57.2
October	67.5

Ex. 2 at p. 4.

The assumptions underlying the proposed minimum monthly storage targets are flawed. As a threshold matter, while the utilities' proposal assumes that the core storage inventory level as of March 31 every year will be zero (Ex. 2 at p. 4), SoCalGas/SDG&E witness Goldstein testified, that as of March 31, 2007, the core storage inventory level exceeded 20 Bcf. Tr. 5/693. Dr. Van Lierop acknowledged that it is "a rare occurrence" when the core procurement department's storage inventory is drawn down to zero at the end of March. Tr. 1/50.

If the actual storage inventory as of March 31 in any year were to be positive, SoCalGas' core procurement department would have virtually unlimited flexibility to fill storage -- or not --

during the first few months of the storage injection season. In view of the manner by which SoCalGas operates storage for its core procurement load, the proposed minimum monthly storage targets would be meaningless. Any minimum monthly storage inventory target must make reference to the core procurement department's actual beginning storage inventory as of March 31.

2. The Proposed Monthly Minimum Storage Targets Could Cause the Core Procurement Department To Inject Relatively More Gas into Storage During the Peak Electric Generation Season

Dr. Van Lierop testified that “concerns have been expressed that too much flexibility with storage injections may give [the core procurement group] the ability under certain circumstances to unduly impact gas prices at the California border.” Ex. 2 at p. 3; See also Tr. 6/814 (Pickett). He acknowledged that electric generators have expressed concern that during the late summer months when electric generation load is at its peak, the core procurement department has usurped substantial interstate pipeline capacity in order to make storage injections. Tr. 1/42-43. Notwithstanding these expressed concerns, the minimum storage inventory targets proposed by the utilities herein, if adhered to rigidly, would cause the core procurement department to inject the greatest quantity of gas into storage during those summer months when electric generation load is highest.

Based upon the utilities' proposed core firm storage injection capacity of 327 MMcf/day, the core's maximum firm storage injections in any month would be approximately 10 Bcf. See Tr. 5/688-89 (Goldstein). Dr. Van Lierop testified that the 327 MMcf/day of firm storage injection rights reserved by the core procurement department would be sufficient to fill storage to its full capacity – from zero to 70 Bcf – over the 214 days of the storage injection season. Tr. 1/32; see also Tr. 5/650 (Goldstein). Under the utilities' proposal, however, minimum storage injections during some months (June, July, August, September) would exceed 10 Bcf.

See Tr. 5/694 (Goldstein); see also Ex. 44. This means that the core procurement department would have to use as-available (i.e. interruptible) storage injection capability (or some other alternative) to meet its storage inventory targets in the same months when electric generation load is highest. Tr. 5/694-95 (Goldstein).

To the extent that as-available storage injections (in addition to firm storage injections) were to be made by the core procurement department, the core procurement department would be using additional interstate pipeline capacity to move gas onto the SoCalGas system. If the core procurement department were to purchase additional gas supplies during the summer months in order to fill storage, less pipeline capacity (and less receipt point capacity) would be available to noncore customers, including electric generation load.

3. The Utilities' Proposal Fails to Include Maximum Monthly Storage Injection Limits

The minimum monthly storage inventory targets are proposed by the utilities for only six months of the year. See Tr. 1/50-51 (Van Lierop). In addition, the settlement proposal does not establish any maximum storage injection limits. Tr. 1/48 (Van Lierop). The absence of maximum injection limits, in particular, would provide SoCalGas with virtually unlimited storage injection flexibility: flexibility that Edison witness Pickett stated could be used to influence border gas prices. See Tr. 6/814.

Dr. Van Lierop conceded that the absence of maximum monthly storage injection targets provides the core procurement department with substantial flexibility. Tr. 1/48-49. In the absence of a maximum monthly injection target, the core procurement department could inject gas into storage in excess of its maximum firm injection capacity (327 MMcf/day). See Tr. 5/694 (Goldstein). In fact, Dr. Van Lierop testified that in the absence of maximum monthly injection limits, the core procurement department could inject gas into storage up to the

maximum inventory allocated to the core procurement department (70 Bcf), even during the peak summer months. Id.

4. Meaningful Minimum and Maximum Monthly Core Storage Inventory Targets Should be Established

In order to address concerns that have been raised regarding the core procurement department's excessive storage injection flexibility (see, e.g., Tr. 6/814 (Pickett)), and in order to mitigate concerns regarding SoCalGas' exercise of market power with respect to storage, Coral proposes that the Commission adopt, in this proceeding, meaningful minimum and maximum monthly core storage inventory targets for SoCalGas' core procurement department. Coral proposes that each year, SoCalGas should establish its minimum monthly storage inventory targets by subtracting its actual core storage inventory as of March 31 from the storage inventory target as of October 31. The difference should be divided by seven (the seven months of the storage injection season), and the result should be the minimum monthly storage target.³⁰ Coral's proposed monthly minimum inventory targets would ensure that SoCalGas will not have to rely upon as-available storage injection rights to fill storage for the core.

Coral also proposes that the Commission impose maximum storage injection limits for those months in which electric generation load is highest. Coral proposes that except as necessary to meet minimum storage inventory targets, SoCalGas' core procurement department should not be allowed to use as-available storage injection rights to fill storage in the three months (July, August, September) when electric generation load is highest. Coral's proposed approach would place some limits on SoCalGas' core storage injections, but Coral's proposal

³⁰ Under Coral's proposed approach, if core storage inventory as of March 31 were to be zero, the minimum monthly storage injection target would be 10 Bcf. See Ex. 44. Any positive storage inventory as of March 31, however, would reduce the core's minimum monthly storage injection target and provide the core procurement department with additional storage flexibility.

would not prevent SoCalGas from using other means (purchases of gas in the ground; parks and loans) to fill storage during these months. See Tr. 5/694-96 (Goldstein).

Dr. Van Lierop expressed concern about minimum monthly storage inventory targets that are based upon the actual storage inventory as of March 31. He testified that such an approach would “take[] away too much flexibility from the core.” Tr. 1/52. The very purpose of the minimum monthly storage inventory targets, however, is to limit the core’s flexibility in order to ensure adequate capacity for noncore customers during all storage injection months. See Tr. 5/694 (Goldstein) The utilities’ proposed monthly minimum storage targets would not impose meaningful limits on the core procurement department.³¹ Accordingly, the utilities’ proposal should be rejected and Coral’s proposal should be adopted.

F. The Core Procurement Department Should be Required to Post its Key Transaction Quantities on the EBB on a Daily Basis.

SoCalGas/SDG&E witness Rodger Schwecke testified that the electronic bulletin board (“EBB”) is the “primary system that manages gas flow at a customer level on the SDG&E/SoCalGas pipeline system.” Ex. 29 at p. 16. Mr. Schwecke testified that the EBB “facilitates gas system operations, planning and regulatory compliance.” Id. Furthermore, the EBB “enables the nomination of gas transportation and storage volumes, . . . the viewing of daily balances and consumption by customer, imbalance trading and the viewing of current operational information.” Id. Mr. Schwecke characterized the EBB as an “essential tool in the efficient operation of the SDG&E/SoCalGas pipeline system. . . .” Id.

³¹ Dr. Van Lierop acknowledged that the proposed minimum monthly storage injection targets do not include any consequences for noncompliance. Tr. 1/52-53. Coral proposes that the Commission adopt a penalty structure that would impose penalties upon the core procurement department (SoCalGas’ shareholders) for failure to meet the monthly minimums.

As a part of the settlement, the utilities propose that the System Operator should be required to post the following operational information on a daily basis (or more frequently):

- Transmission zone and receipt point capacities (cycle-by-cycle basis);
- Storage capacity (cycle-by-cycle basis);
- Derivation of system capacity;
- Estimated daily (and hourly, if available) pipeline operational and scheduling information;
- Estimated and actual daily storage operational and scheduling information;
- Daily total physical storage inventory levels; and
- Status of system balancing rules.

Ex. 29 at p. 17. Coral supports the proposed posting requirements,³² but these proposed requirements do not go far enough.

The utilities' proposed settlement provides that, unlike the System Operator, the core procurement department should be required to post its own operational information - - gas purchases, storage injections and withdrawals, as well as Hub transactions - - on a weekly basis.

Ex. 29 at p. 17 (Schwecke). In other words, the proposed settlement contemplates that the single entity that wields the greatest market power in the southern California gas market - - SoCalGas' core procurement department - - would be subject to a much more limited posting obligation than the System Operator.

³² SoCalGas/SDG&E policy witness Richard Morrow testified that the proposals in the settlement agreement "create a great deal of transparency for parties to be monitoring what is going on in the transmission, storage system that is operated by SoCal." Tr. 3/338. Mr. Morrow continued: "Transparency goes a long way to address concerns that certain parties had." *Id.* Edison witness Pickett testified that "[t]he enhanced posting requirements . . . will significantly improve the transparency of the operations and market functions related to the SoCalGas system." Ex. 47 at p. 8.

SoCalGas/SDG&E witness Goldstein testified that because SoCalGas' core procurement department is a competitor in the southern California gas market, the core procurement department would be "disadvantaged" if it were required to post its operational information on a daily basis. Tr. 5/748-49. Mr. Goldstein testified that by posting SoCalGas' daily core gas purchase and sales quantities over the past five years, competitors would be able to analyze SoCalGas' activities in order to establish patterns of conduct regarding the core procurement group's purchase and sales practices. Tr. 5/751.³³ Mr. Goldstein insisted that SoCalGas' core procurement department should not be required to post daily transactions if other market participants are not required to disclose the same information. See Ex. 37 at p. 4; Tr. 5/751 (Goldstein).

Mr. Goldstein's testimony highlights the potential for market abuse that is the point of this entire settlement proceeding. The Commission is being asked to adopt structural changes that are intended to mitigate the exercise of market power by SoCalGas. See Ex. 47 (Pickett) at pp. 5-6. SoCalGas' core procurement department is the "800-pound gorilla" in the southern California market. Tr. 7/1032 (Dyer). SoCalGas is not just another market participant. SoCalGas' core procurement load is 46 percent of the total demand on its system. Id. Because SoCalGas possesses market power in southern California, and because concerns have been raised about the improper exercise of market power by SoCalGas, it is appropriate to subject SoCalGas'

³³ Mr. Goldstein insisted that the core procurement group would be "disadvantaged," but he acknowledged that he had not assessed or quantified the potential cost of such a posting requirement. See Tr. 5/752.

core procurement department to higher levels of scrutiny than other market participants. See Tr. 7/1032 (Dyer); Ex. 59 (Dyer) at pp. 27-28.³⁴

The Commission must take measures to ensure that the core procurement department is not able to exert undue influence on gas prices in the southern California market. Daily posting of the core procurement department's gas purchases and sales, storage injections and withdrawals, and Hub activities will enable the Commission, as well as market participants, to monitor the operations of the core procurement department without compromising the core procurement department's competitive position. Ex. 59 (Dyer) at p. 28.

The core procurement department should be required to post on the EBB, on a daily basis, the following operational information:

- Core load forecast;
- Actual core gas consumption
- Core gas purchases;
- Core gas sales (broken down between core customers and "other" sales);
- Core storage injections;
- Core storage withdrawals;
- Hub transactions (broken down by parks, loans, and wheeling transactions); and
- Net Hub position.

Ex. 59 (Dyer) at pp. 27-28. As long as the core procurement function is dominated by a single entity, the core procurement department should be required to post daily operational information.

³⁴ SoCalGas/SDG&E policy witness Richard Morrow testified, in this connection, that the posting of core procurement transactions is an "integral part" of the overall settlement package. Tr. 3/362.

G. The Utilities' Unbundled Storage Proposal Should be Rejected

1. Unbundled Storage Should be Priced by SoCalGas at the Lesser of Embedded Cost or Scaled Long Run Marginal Cost

The utilities propose to allow SoCalGas to charge “market-based” prices for unbundled storage services, up to specified “caps”. See Ex. 8 (Watson, SoCalGas/SDG&E) at p. 3. Coral objects to the utilities’ proposal. SoCalGas is the monopoly provider of storage services in southern California. See Ex. 5, p. 10; see also Tr. 6/826 (Pickett); Ex. 25 (Yap, SCGC) at p. 10. With the volatility that currently characterizes the gas supply market, storage assets are likely to be extremely valuable. Ex. 59 (Dyer) at p. 39; Tr. 2/221 (Watson).³⁵ There is no legitimate reason to enrich SoCalGas’ shareholders or to impose an undue cost burden on customers simply because storage is in high demand.

SoCalGas’ unbundled storage should be priced on a cost-of-service basis. A cost-of-service approach for unbundled storage is consistent with the Commission’s directive to move toward cost-of-service pricing for unbundled firm access rights and unbundled backbone transmission service. In D.06-12-031, the Commission stated that “establishing a cost-of-service [firm access rights] charge based on backbone transmission costs will send the appropriate price signals to users of the system.” Decision at p. 88. As under the firm access rights program, SoCalGas should price its unbundled storage on a cost-of service basis. SoCalGas should be allowed to offer discounts (on a nondiscriminatory basis) to the cost-of-service rate if necessary, and the revenue under-collection should be reflected in a balancing account. Ex. 59 (Dyer) at p. 39.

³⁵ Mr. Watson agreed that the market imputes a value for storage based upon gas price volatility and gas price differentials between seasons. Tr. 2/218. In a market characterized by high gas price volatility, the value of storage is relatively higher. Tr. 2/221 (Watson). In the current market environment, in which gas prices are extremely volatile, the value of SoCalGas’ unbundled storage has increased substantially. *Id.*

SoCalGas/SDG&E witness Steven Watson testified that a maximum rate for unbundled storage that is based upon a market price is justified in order to provide a price signal that SoCalGas should expand its storage operations. Ex. 9 at p. 9. A maximum rate above SoCalGas' cost-of-service is not necessary, however, to encourage SoCalGas to expand its storage. Two provisions of the Edison settlement agreement call upon SoCalGas (and SDG&E) to address storage expansion without regard to the current price for unbundled storage.

First, the Edison settlement requires the Sempra utilities to develop a system expansion study every three years that addresses, among other matters, potential expansion of SoCalGas' storage facilities. See Ex. 19 (Morrow), Ex. B, No. 14, pp. B-3-4. Second, the Edison settlement agreement requires SoCalGas to "define a storage development plan, where feasible and economic, to increase the storage capacity and operational capability of its existing storage services." Id. at Ex. B, No. 15, p. B-4. This section of the Edison settlement agreement provides that if customers subscribe to the incremental storage capacity offered by SoCalGas, "SoCalGas will implement the plan to meet that subscription." Id. These provisions of the Edison settlement demonstrate that a separate "price signal" is not required in order to encourage SoCalGas to expand its storage facilities and capacity.

Mr. Watson acknowledged, upon cross-examination, that each storage product (i.e. inventory, firm injection or firm withdrawal) is the same whether the product is used by the core procurement department, or by the System Operator (for balancing), or through the unbundled storage program. Tr. 2/217-18. Because these storage products are priced on a cost-of-service basis for core customers and for balancing, these storage products should be priced on a cost-of-service basis for the unbundled storage program, as well. See Ex. 25 (Yap) at p. 3. The

maximum price for each separate storage service (inventory, injection and withdrawal) should be the lesser of embedded cost or the scaled LRMC. Ex. 59 (Dyer) at p. 41.

2. Regardless of the Price Charged by SoCalGas for Unbundled Storage, All Unbundled Storage Revenues Should be Returned to Ratepayers

In the same manner that the Commission recently approved balancing account treatment for unbundled transmission costs under SoCalGas and SDG&E's firm access rights structure (see D.06-12-031 at pp. 87-88), the Commission should approve balancing account treatment for SoCalGas' unbundled storage costs. SoCalGas' shareholders should be neither penalized nor rewarded for the sale of unbundled storage.

SoCalGas' shareholders already earn a return on the utility's transmission and storage assets. See Tr. 2/222 (Watson); Tr. 4/541-42 (Schwecke). In fact, SoCalGas' actual return on common equity consistently exceeds its authorized return.³⁶ SoCalGas' shareholders do not require an additional incentive to sell unbundled firm access rights or unbundled firm storage rights. In the same manner that SoCalGas and SDG&E are required to sell any unused firm receipt point access rights on either a firm basis or an interruptible basis, at a cost-of-service-based price, SoCalGas also should be required to sell any unused storage rights on a firm basis or an interruptible basis, at a cost-of-service-based price.

Mr. Watson acknowledged that SoCalGas has a responsibility to maximize its revenues from the sale of unbundled storage regardless of the level of the incentive that SoCalGas receives with respect to unbundled storage revenues. Tr. 2/231. However, Mr. Watson testified that because SoCalGas' unbundled storage program operates under an incentive mechanism, SoCalGas has applied some of its "best and brightest" personnel to the unbundled storage

³⁶ For the period 1998 through 2005, Sempra's annual reports show that SoCalGas' return on common equity has averaged 15.65 percent, compared to its average authorized return on common equity of 11.31 percent. See Ex. 59 (Dyer) at p. 37.

program. Tr. 2/232. Mr. Watson testified that SoCalGas would not likely be earning as much in unbundled storage revenues “if all we had was an obligation to maximize revenues.” Id.

The Commission should be extremely concerned by Mr. Watson’s suggestion that SoCalGas will only maximize its sales of unbundled storage (and that it will only maximize its unbundled storage revenues) if the Commission provides SoCalGas’ shareholders with a financial incentive to do so. SoCalGas is the monopoly provider of storage services in the southern California market. As Mr. Watson acknowledged through cross-examination, SoCalGas has an obligation to maximize its revenues from the sale of unbundled storage. Tr. 2/231.

SoCalGas already has an incentive to optimize the use of its system through the recovery of its authorized rate of return. The Commission can and should hold SoCalGas to its obligation to maximize the use of unbundled storage without the need to provide SoCalGas with an additional incentive.

3. Permanent Releases of Storage Capacity in the Secondary Market Should Relieve the Releasing Shipper of Liability

Coral supports the establishment of a secondary market for unbundled storage. Consistent with the secondary market for firm receipt point access rights that was adopted in D.06-12-031 (p. 107), Coral supports the utilities’ proposal to post secondary market transactions on the EBB, as well as the utilities’ proposal to provide quarterly reports to the Commission. See Ex. 59 (Dyer) at p. 36.

When a customer’s firm storage rights are permanently and completely assigned (released) to a creditworthy customer, the releasing customer should not remain liable for reservation charges associated with the released firm storage rights. Ex. 59 at p. 37. In a situation in which a customer releases the entire quantity of its firm storage rights for the full

amount of the releasing customer's contract price, for the full term of the storage contract, to a customer that satisfies SoCalGas' applicable credit requirements, the releasing customer should be fully relieved of all liability for performance by the acquiring customer. Ex. 59 at p. 37.³⁷

4. Unbundled Storage Should be Allocated Through a Nondiscriminatory Open Season Process

SCGC witness Catherine Yap proposes a two-step process for the allocation of unbundled storage. Ms. Yap proposes that in Step 1, on-system end use customers should be offered unbundled storage service at rates up to the fully scaled LRMC. Ex. 25 at p. 17. In Step 2, marketers, suppliers and off-system customers should be able to obtain any remaining unbundled storage at market-based rates. Id.

SCGC's two-tiered allocation approach, if adopted, would create a dual market for the initial allocation of unbundled firm storage rights, but would create unnecessary and inappropriate arbitrage opportunities in the secondary market. A two-tiered rate structure for the same unbundled storage product is inequitable in its inception. Mr. Watson characterized SCGC's two-tiered storage allocation proposal as "an arbitrary allocation procedure." Tr. 2/233. SCGC's proposed allocation mechanism is unduly discriminatory and should be rejected.

H. The Balancing Function Should be Performed by the Same Entity and in the Same Manner for Core Customers and Noncore Customers

SoCalGas/SDG&E witness Schwecke testified in support of the utilities' proposal to provide balancing service to the core customer class and the noncore customer class "under the same rules and tariffs on the SDG&E/SoCalGas system." Ex. 29 at p. 7. Mr. Schwecke testified

³⁷ Coral's proposed approach is consistent with the approach that SoCalGas and SDG&E agreed upon with respect to the release of firm access rights. See Tr. 2/212 (Watson). This approach is also consistent with the treatment of shippers that permanently release firm interstate pipeline capacity. Id. Upon cross-examination, Mr. Watson agreed that this approach should apply with respect to the release of firm storage rights as well as the release of firm receipt point capacity rights on the SoCalGas system. Id.

that once SoCalGas and SDG&E's core procurement departments are combined, "[t]he new combined Utility Gas Procurement Department will be expressly subject to the same rules and imbalance charge assessments as other balancing entities." *Id.* at p. 8.³⁸

Coral supports the utilities' proposal to subject core customers and noncore customers to the same balancing rules. Making the core procurement department adhere to the same monthly balancing tolerance as noncore customers, the same winter balancing rules, and the same OFO procedures will impose the same discipline on the core procurement department's gas purchases, storage injections, and Hub transfers that applies to noncore customers and their suppliers. *See* Ex. 29 (Schwecke) at p. 8.

A careful review of the utilities' balancing proposal, however, reveals that the utilities do not intend to treat the core procurement department the same as noncore customers. Coral submits that the balancing proposal must be modified so that the System Operator provides nondiscriminatory balancing services to all core customers and noncore customers. For core customers, the daily load forecast should be provided by the System Operator, and it should be made public. Furthermore, the Commission must allocate additional storage assets to the System Operator in order to perform the balancing function for all customer classes.

1. The Daily Core Load Forecast Should be Provided by the System Operator and Posted on the EBB

Coral objects to the perplexing manner by which the utilities propose to determine whether the core procurement department is "in balance." First, Mr. Schwecke testified that the core procurement department's scheduled deliveries will be compared against a forecast of core load. Ex. 29 at p. 8. Mr. Schwecke and Dr. Van Lierop testified, however, that the forecast will

³⁸ Mr. Schwecke noted that unlike noncore customers that have daily metering, the core procurement department will use a "daily forecast quantity" as a proxy for core procurement meter usage. Ex. 29 at p. 8.

be generated by the “demand forecast group” within the Regulatory Affairs department. Id.; Tr. 1/56 (Van Lierop). Second, Dr. Van Lierop testified that the core forecast methodology has not been specified as a part of the utilities’ proposal. Tr. 1/132.³⁹ Third, Dr. Van Lierop testified that the forecast will not be made public. Tr. 1/57-58.

The determination of whether the core procurement department is in balance should be based upon a forecast that is developed independently by the System Operator. That forecast should be posted on the EBB on a daily basis so that all market participants are equally aware of the daily constraints that may be imposed on the system by core procurement demand.

2. The System Operator Should Perform the Balancing Function for Both Core and Noncore Load

The utilities do not intend that the same entity will provide balancing services to noncore customers and to core customers. SoCalGas/SDG&E witness Reginald Austria testified that the System Operator will provide balancing services to the core procurement department, while the core procurement department will provide balancing services to noncore customers. Tr. 7/1113-14.⁴⁰

³⁹ The core procurement department’s internal forecast of core procurement load is not verified by the System Operator or compared against the System Operator’s forecast. Tr. 5/677 (Goldstein).

⁴⁰ The utilities propose to exempt the utilities’ core procurement department from any responsibility for imbalance charges. The utilities propose that imbalance charges imposed upon the core procurement department by the System Operator should be recovered from core procurement customers through the monthly core gas price mechanism. Ex. 63 (Austria) at p. 3. Although Mr. Austria and Dr. Van Lierop acknowledged that imbalance charges imposed upon the core procurement department are “effectively costs of gas, costs associated with purchasing gas” (Tr. 7/1110; Tr. 1/67), Dr. Van Lierop testified that imbalance charges that are incurred by the core procurement department should not be added to the core’s cost of gas for purposes of calculating shareholder awards under the GCIM. Tr. 1/64-65. In other words, SoCalGas (and SDG&E’s) shareholders will not be responsible for the imbalance charges arising from the purchase practices of the core procurement department.

If the core procurement department is to be subject to monthly imbalance tolerances and OFOs, the core procurement department cannot also be the provider of balancing services to noncore customers. The storage assets that currently are set-aside for system balancing should not be controlled by the core procurement department. These assets should be controlled and managed by the System Operator for the benefit of all customers.

Under the utilities' proposal to allow the core procurement department to continue to provide balancing services to the noncore market, the core procurement department would effectively gain access to additional storage capacity above and beyond the storage rights reserved for core procurement customers. See Tr. 5/699 (Goldstein). The utilities' proposed balancing approach would increase, rather than reduce, the potential for the exercise of market power by the core procurement department.

In light of these concerns, Coral proposes that the System Operator should provide balancing services for all core and noncore customers. All revenues from balancing services should be placed in a balancing account and allocated to customers in accordance with a methodology to be adopted by the Commission in the utilities' next BCAPs.

3. If the Core Procurement Department is to be Subject to Monthly Balancing, Additional Storage Assets Must be Allocated to the Balancing Function

The storage assets that currently are assigned to the balancing function are intended to provide balancing services for the noncore market. Tr. 1/61-62 (Van Lierop). These assets are not adequate to provide balancing services for all customers on the SoCalGas/SDG&E system. Currently, 5.3 Bcf of inventory, 250 MMcf/day of withdrawal rights, and 355 MMcf/day of injection rights are allocated to system balancing. See D.97-04-082 (April 23, 1997). Adding the core procurement loads of SoCalGas and SDG&E (total average demand of 1.135 Bcf/day

and total peak day demand of approximately 3.1 Bcf) to the load for which balancing must be provided will severely strain the storage assets that currently are used for balancing.

Applying the 10 percent monthly imbalance tolerance to core procurement load will require significant added storage withdrawal and injection capability for the balancing function. Tr. 5/699 (Goldstein). In response to a data request from DRA, SoCalGas stated that “[o]n very cold winter days, the core will receive balancing service from the system operator equal to 10% of core burn which will provide an additional peak capacity of over 300 MMcf/day.” Ex. 39. Mr. Goldstein testified that this 300 MMcf/day of additional storage withdrawal capacity would be added to the 2,225 MMcf/day of firm withdrawal rights that would be allocated to the combined core procurement department under the terms of the settlement. Tr. 5/699.

If the core procurement department is going to have control of an additional 300 MMcf/day of storage withdrawal capacity as a result of the new balancing rules, the 300 MMcf/day of storage withdrawal must come from somewhere. Yet the utilities do not propose, in this proceeding, to allocate additional storage withdrawal capacity to the balancing function. Tr. 5/699 (Goldstein). The utilities also do not propose, in this proceeding, to increase the core’s firm storage withdrawal rights beyond 2,225 MMcf/day.

The core balancing approach that has been proposed by the utilities suggests either that the core procurement department will enjoy increased delivery flexibility at no additional cost, and/or that the extension of monthly balancing to the core will lead to an increase in the frequency of OFOs.⁴¹ Neither outcome is reasonable or acceptable. Coral submits that the

⁴¹ Dr. Van Lierop testified that by granting the core procurement department a 10 percent monthly imbalance tolerance, the settlement would increase the flexibility enjoyed by the core procurement department. Tr. 1/41.

proposed change to the balancing rules should be accompanied by an allocation of additional storage to the balancing function.⁴²

I. The Responsibilities of the System Operator Must be Clearly Defined

In the exemplary tariffs attached to Mr. Schwecke's testimony, SoCalGas and SDG&E provide a definition for a newly created "System Operator." The utilities propose that the Utility System Operator should be

[t]he applicable departments within Southern California Gas Company that are responsible for the physical and commercial operation of the pipeline and storage systems specifically excluding the Utility Gas Procurement Department.

Ex. 29, Appendix T, Rule 1 (Definitions).

The utilities do not address the scope of the System Operator's responsibilities, however, and the utilities do not address the standards by which the System Operator will conduct itself. Rather, the utilities advance two proposals to shift certain responsibilities from the core procurement department to the System Operator:

First, the utilities propose that the System Operator should be responsible "for ensuring that gas supplies are delivered at the required locations to maintain system reliability." Ex. 29 (Schwecke) at pp. 3-4. Second, the utilities propose that the Hub services function should be transferred from the core procurement department to the System Operator. *Id.* at p. 6.

Coral submits that before the Commission can address the specific System Operator proposals that are contained in the utilities' testimony, the Commission must determine the broader role of the System Operator, as well as its responsibilities. Coral witness Dyer provided

⁴² Dr. Van Lierop acknowledged that once the core is subject to a 10 percent monthly imbalance tolerance, the allocation of storage inventory capacity to the balancing function may need to be addressed. Tr. 1/61-62.

a proposed framework within which the System Operator should function. Coral proposes that the System Operator should:

1. Be responsible for maintaining system reliability and integrity, forecasting core demand, managing the firm access rights program and the unbundled storage program, and marketing the utilities' unsubscribed transportation, storage, and receipt point capacity, including "Hub" services;
2. Conduct open and public processes in the identification and solicitation of "tools" that support system reliability, in order to purchase those tools on a "least-cost" and "least-invasive" basis;
3. Limit the impact of its actions on any individual customer or group of customers, and not interfere with existing contract rights, or impose burdens on existing or prospective contract rights;
4. Be precluded from operating as a "profit center" for the utilities;
5. Maintain a fiduciary obligation to the utility's customers, not to the Core Procurement Department or to the utility's shareholders;
6. Not share proprietary operating information with any market participant;
7. Be subject to strict rules that ensure equal treatment of all customers and shippers;
8. Operate in a transparent fashion; and
9. Disclose operating data, including historical data, in a timely manner on the EBB.

Ex. 59 at pp. 30-31.

Before the Commission addresses the utilities' proposals to shift specific responsibilities from the core procurement department to the System Operator, the Commission must address the overall role of the System Operator on the SoCalGas/SDG&E system. Once the broad framework for the System Operator is established, it will be far easier for the Commission to

address specific System Operator functions. Coral urges the Commission to adopt the framework for the System Operator that was advanced in Mr. Dyer's testimony.

1. **100 Percent of the Revenues from Services Provided by the System Operator Should be Returned to Ratepayers**

The utilities propose that the System Operator's interruptible access charge revenues (associated with the firm access rights program) should be shared between ratepayers (90 percent) and shareholders (10 percent). See Ex. 9 (Watson) at p. 24. The utilities propose that the System Operator's Hub service revenues should be shared between ratepayers (50 percent) and shareholders (50 percent). See Ex. 31 (Schwecke) at pp. 3-4. The utilities also propose that the System Operator's excess unbundled storage revenues (or the revenue shortfall) compared to the agreed upon unbundled storage revenue requirement should be shared between ratepayers (50 percent) and shareholders (50 percent). See Ex. 8 (Watson) at pp. 2-3; Tr. 2/213-14 (Watson).

The utilities' witnesses sought to justify these shareholder reward mechanisms by stating that a shareholder incentive provides additional motivation for the utilities to provide the services that the Commission has otherwise directed them to provide. Mr. Watson testified, for example, that the potential for a shareholder award "provide[s] the utility with a financial incentive to ensure that the maximum amount of interruptible capacity is offered" Ex. 9 (Watson) at p. 24. Similarly, Mr. Schwecke testified that "[b]y providing an incentive the utility will aggressively pursue the best transactions and . . . look at innovative ways of using its unsubscribed assets, or unutilized assets, to provide benefit to ratepayers." Tr. 4/542.

On cross-examination, Mr. Watson acknowledged that under the terms of the Commission's December 2006 firm access rights decision (D.06-12-031), the Sempra utilities have an obligation to make available, on an interruptible basis, all receipt point capacity that is

not being used by firm shippers. Tr. 2/201.⁴³ Mr. Watson acknowledged that SoCalGas/SDG&E have an obligation to their customers to do the best that they can to maximize interruptible access charge revenues, regardless of whether there is an “incentive” mechanism in place. Tr. 2/203-04. He further stated that SoCalGas/SDG&E should act aggressively on their customers’ behalf, regardless of whether there is an incentive or not. Tr. 2/204.⁴⁴

Nevertheless, Mr. Watson testified that a 10 percent shareholder award for interruptible access charge revenues would be appropriate “to get the utilities to pay extra attention to particular [Commission] directives.” Tr. 2/202. Mr. Watson testified: “[I]ncentives do help to provide extra attention, extra care to particular directives.” *Id.* Mr. Watson went so far as to testify that in those areas of service where shareholder incentives are provided, “over time those areas attract more and more talented people.” *Id.* Mr. Watson stated that the presence of an incentive mechanism for a particular function “seems to draw the best and the brightest in the company.” *Id.*

Coral agrees with Mr. Watson’s cross-examination testimony that the utilities are required to maximize interruptible access charge revenues, Hub revenues, and unbundled storage revenues for the benefit of their ratepayers, regardless of the presence of a shareholder incentive mechanism. Tr. 2/201, 203-04. SoCalGas/SDG&E’s witnesses acknowledged that the utilities’ shareholders earn a return on the transmission assets and storage assets that are used to provide

⁴³ The Commission also decided, in D.06-12-031, that all interruptible access charge revenues are to be returned to ratepayers. The Commission stated: “There is no need to provide SoCalGas with an incentive to sell unused receipt point access capacity when it is required under the tariff to do so.” Decision at p. 92.

⁴⁴ Mr. Morrow also testified that the System Operator’s obligation to make available, on an interruptible basis, any utilized receipt point capacity or underutilized storage capacity is without regard to whether an incentive mechanism exists for the interruptible revenues. Tr. 3/342-43.

all of these services. See Tr. 2/222 (Watson); Tr. 4/541-42 (Schwecke). There is no reasonable justification for providing an additional incentive to the utilities' shareholders.

The System Operator should not be a profit center for the utilities. The System Operator should have a fiduciary obligation to manage assets and provide services in a manner that maximizes benefits for the utilities' ratepayers. Accordingly, Coral submits that the proposed shareholder incentives for Hub service revenues, interruptible access charge revenues, and unbundled storage revenues should be rejected. All revenues received for services provided by the System Operator should be returned to utility ratepayers.

2. The Commission Must Approve the Tools to be Used by the System Operator to Maintain System Reliability

The utilities request authority to shift responsibility for "system reliability" from the core procurement department to the System Operator. Ex. 29 (Schwecke) at pp. 3-4. The utilities request specific approval for the System Operator "to buy and sell gas on a spot basis, as needed, to maintain system reliability." Ex. 30 (Schwecke) at p. 2.

The utilities do not seek approval of any other "tools" to be used by the System Operator to maintain system reliability, however. See Tr. 4/482-83 (Schwecke). Instead, the utilities request approval of an RFO process or an open season process through which the utilities may solicit offers for (unspecified) services or tools that may be used to maintain system reliability. Ex. 30 (Schwecke) at pp. 3-4. In this connection, the utilities request authority to pursue an expedited advice letter process through which the utilities may seek approval of the contracts that result from the RFO process. Id.

Mr. Schwecke provided examples of the types of tools that may be solicited through the RFO/open season process. See Ex. 29 at p. 4; Ex. 30 at pp. 3-4. Nevertheless, the utilities do not seek approval of any of these tools. See Tr. 4/484-85 (Schwecke). Rather, the utilities prefer to

seek specific approval of any particular tool through an expedited advice letter process that provides a limited opportunity for protests by interested parties. Tr. 4/485-86 (Schwecke).

Coral submits that the Commission should address, in this proceeding, the range of options (i.e. “tools”) that should be available to the System Operator to maintain system reliability. Ex. 59 (Dyer) at p. 32. The Commission has the opportunity, in this proceeding or in a separate application proceeding, to assess the types of tools that the System Operator seeks to pursue in order to maintain system reliability. The Commission should not wait until an expedited advice letter is filed in order to consider the merits of any particular system reliability protocol or “tool.”

3. Any Tools That are Used by the System Operator Must be Mutually Agreed Upon by the Affected Shippers or Customers

The System Operator should perform its obligations in a manner that limits the impact on individual customers or groups, and in a manner that does not interfere with existing contract rights. Ex. 59 (Dyer) at p. 31. SoCalGas and SDG&E should not be permitted to impose burdens or restrictions on shippers and/or firm access rights holders at particular receipt points on a unilateral basis.

As noted above, one of the goals of the System Operator should be to maintain system reliability in a manner that is least invasive with respect to the rights of individual customers or classes of customers. See Tr. 7/1033 (Dyer). The System Operator should negotiate for any services that are needed to maintain system reliability on a bilateral basis, rather than unilaterally imposing restrictions on firm access rights holders’ contractual rights. Ex. 59 at p. 33; Tr. 7/1033 (Dyer).

4. **If the System Operator Is Granted Authority to Buy and Sell Gas, the System Operator Must be Subject to the Same Rules and Charges as Other Market Participants**

SoCalGas and SDG&E request Commission approval for the System Operator “to buy and sell gas on a spot basis, as needed, to maintain system reliability.” Ex. 30 (Schwecke) at p. 2. Mr. Schwecke characterizes this spot purchase and sale authority as the “first and crucial step to provide the System Operator with the capability to meet flowing gas requirements in a timely manner.” *Id.* at p. 3.

Coral does not object to granting the System Operator authority to buy and sell gas on a spot basis in order to maintain system reliability. However, if the System Operator is granted authority to buy and sell gas, the System Operator must be subject to the same rules and the same charges as any other market participant.⁴⁵

Mr. Schwecke testified that when the System Operator purchases gas supplies to maintain system reliability, the System Operator will sell the gas supplies “into the southern California marketplace.” Tr. 4/498. When the System Operator purchases and then re-sells gas supplies, the System Operator must bear the same receipt point access charges, imbalance charges, storage charges and/or transportation charges as any other marketer or customer. If the System Operator purchases gas at a receipt point and thereafter sells the gas at the citygate, the System Operator should be required to pay either a firm receipt point access charge or an interruptible access charge to move the gas from the receipt point to the citygate.

Surprisingly, however, Mr. Schwecke testified that the System Operator should not have to bear firm (or interruptible) access charges in order to ship gas from a receipt point to the

⁴⁵ The System Operator also will purchase and sell gas through its administration of balancing services. The System Operator should be subject to the same rules as other market participants in whatever capacity the System Operator is buying and selling gas.

citygate.⁴⁶ Coral submits that the System Operator should not enjoy an advantage with respect to the sale of gas into the marketplace, regardless of the purpose for which the gas is purchased. The System Operator will sell its gas at market prices. Id. The System Operator's gas sales will compete directly with gas sales by other marketers. Tr. 4/503 (Schwecke). The Commission should not discriminate in favor of the System Operator with respect to activities that directly affect the market. The System Operator should not be exempt from any of the charges that apply to other market participants.

IV.

CONCLUSION

The purpose of this proceeding is to mitigate the market power that SoCalGas currently enjoys in southern California. The source of SoCalGas' market power is the size of its core portfolio and the assets (storage, intrastate pipeline capacity and interstate pipeline capacity) that are within the control of the core procurement department.

Coral's proposed Core Portfolio Diversity Program is intended to mitigate - - even eliminate - - the core procurement department's market power by segmenting core procurement demand and allocating blocks of core procurement demand among multiple suppliers. Segmentation and allocation of the core portfolio will ensure that no single entity has control over the assets that could lead to the exercise of market power.

Adoption of the Core Portfolio Diversity Program will make many of the proposed structural changes in the settlement agreement unnecessary. Adoption of the Core Portfolio

⁴⁶ Mr. Schwecke stated that "[y]ou would basically be charging the System Operator the fee and turning around and charging an end-use customer for that cost to provide that service." Tr. 4/500. Mr. Schwecke testified that the System Operator should be exempt from the access charge because the System Operator would be buying and selling gas to maintain system reliability. Tr. 4/501.

Diversity Program also will introduce changes to the procurement incentive mechanism. The Commission should embrace Coral's proposed changes to the incentive mechanism in order to provide increased price stability and to encourage least cost procurement for the benefit of core procurement customers.

The Commission should reject the utilities' proposed structure for unbundled storage services. Unbundled storage should be priced on a cost-of-service basis. Regardless of the price charged by SoCalGas for unbundled storage, however, all revenues for the sale of unbundled storage in excess of costs should be allocated to utility ratepayers.

Finally, Coral supports separation of the core procurement function from the System Operator function. Coral urges the Commission to adopt standards of conduct for the System Operator to ensure that the System Operator's primary duty is to manage the system for the benefit of utility customers. The System Operator should not be a "profit center." Revenues attributable to System Operator services should be returned to utility ratepayers. Moreover, the System Operator should be subject to the same rules and charges as all other market participants when engaging in the purchase and sale of gas, transportation, receipt point access rights, and storage.

Respectfully submitted,

/s/

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Date: June 25, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have served, this day, a copy of the foregoing **OPENING BRIEF OF CORAL ENERGY RESOURCES, L.P.** on the Honorable Michael R. Peevey, Assigned Commissioner and the Honorable Thomas R. Pulsifer, Presiding Administrative Law Judge by electronic mail and Federal Express; and on all parties in A.06-08-026 by electronic mail only.

Executed on June 25, 2007, at San Diego, California.

_____/s/
Debra A. Casebier

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CALIFORNIA PUBLIC UTILITIES COMMISSION

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